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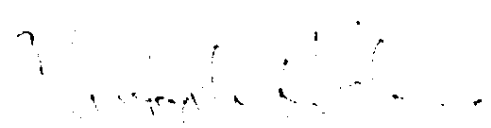
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UNCLASSIFIED
(With ~~Secret~~ Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
✓ DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY
AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF
OF STAFF
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT Senior Interdepartmental Group on
International Economic Policy

Attached are the minutes of the SIG-IEP meeting held on
January 11.


Christopher Hicks
Executive Secretary and
Special Assistant to the Secretary

Attachment

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SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

3:15 p.m.
January 11, 1984
Roosevelt Room

Attendees:

Treasury

Secretary Regan, Chairman
Marc E. Leland

CIA

Maurice Ernst
David Gries

Office of the Vice President

Vice President Bush
Donald Gregg

USTR

Michael Smith
Joe Massey

State

W. Allen Wallis
Dennis Lamb
William Sherman

CEA

Martin Feldstein
Jeffrey Frankel

Defense

Dov Zakheim
Col. William Weida

Cabinet Affairs

Larry Herbolsheimer

Agriculture

Secretary Block
Daniel Amstutz

NSC

Roger Robinson
David Wigg

Commerce

Secretary Baldrige
Albert Kingon

OMB

Alton G. Keel

The Chairman opened the meeting by announcing the appointment of Roger Robinson as the new Executive Secretary of the SIG-IEP replacing Norman Bailey.

Follow-up to U.S.-Japan Initiatives

State summarized the status and progress of various U.S.-Japan issues and attempts to narrow the focus following the President's trip.

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The joint policy statement of the President and Prime Minister Nakasone regarding energy dealt with oil, coal, and gas:

- The removal of restrictions on export of crude oil;
- Encouraging private companies to look at developing natural gas in Alaska; and
- Steps to advance U.S. exports of steam and metallurgical coal.

Japanese and U.S. experts will discuss the coal issue at a U.S.-proposed meeting on February 16-17. It was emphasized that the U.S. discussants should impress upon the Japanese the seriousness of U.S. efforts. In addition, State will be meeting with North Slope interests on gas prospects.

State reviewed the results of the Japanese elections for the Vice President, characterizing the loss of 36 seats by the LDP as its worst defeat since World War II. The primary reasons for the poor turnout and LDP defections were considered to be (1) bad weather and (2) too many LDP candidates.

The Japanese conservative consensus remains the same, but the status of the LDP has lessened. The Tanaka scandal probably didn't help in the Nakasone reelection effort. State's bottom line assessment is that Nakasone will stay in the saddle through 1984 but will be preoccupied by growing factional maneuvering, and the LDP will be emphasizing caution. Thus, with respect to our efforts to move the Japanese on various issues, we need to be sensitive to the relative changes within the Nakasone government. They, in turn appear to be sympathetic to the U.S. Administration's needs in this election year.

Chairman Regan requested an evaluation of the chances of moving forward on specific issues in investment, trade, agriculture, and financial markets. State responded that we will need to be selective in order to make progress and that some issues will probably fare better than others.

Chairman Regan then asked if resolution of any of the issues has political appeal within Japan. State responded negatively, stating that any capitulation to the United States will be looked upon as a defeat within the Japanese government. Clearly, agriculture will be the toughest issue.

The Vice President commented that the hiatus in Japanese activities as a result of the election seemed longer than reasonable, and he believes the Japanese are dragging their feet.

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The Vice President commented that he was uncomfortable with the delays -- that there appeared to be nothing in terms of moving forward in the framework of the machinery visualized by the President and Prime Minister Nakasone. There is a lot at stake. We must avoid creating the impression that the President is soft on Japan -- thus, we need to form positions to move forward well before London.

State plans to make inquiries into the selection process for a Japanese counterpart to the Vice President in order to move on to development of an agenda. The consensus was that the Japanese may stall. State commented that the Japanese Ambassador had come in and appeared to be genuinely up in the air about the Vice Presidential counterpart. He had questioned how they could offer a counter to the Vice President when they have no such office within their political hierarchy. He had stated that it would be unfortunate for the process to be viewed as the United States forcing the Japanese to appoint a Deputy Prime Minister and raised the question of whether the Vice President will be actually negotiating or merely managing the process. The Vice President responded that various cabinet people will negotiate but he wants a counterpart to gauge progress and to move off of dead center.

Secretary Block commented that although the agricultural questions do not involve major amounts of money, they are very important politically, particularly since the present U.S.-Japan agreement expires at the end of March. We need a solution before that time or the battle ground may switch to the GATT.

Secretary Baldrige commented that these problems, although somewhat confusing, seem to be a delaying tactic by the Japanese. Japanese coal buying time is January through March and they are proposing a May meeting. By that time, they will be facing serious constraints, and won't have time to negotiate. In his view, the U.S. has counterbalancing political problems equally serious. The first quarter trade deficit will be released in May, and we need specific accomplishments to offset what will undoubtedly be bad news.

State mentioned that the agricultural negotiations will begin on January 20 and will be followed by tariff negotiations the next week. There was a general consensus that the Vice President must be able to point to results in the spring to show results. Agriculture commented that the Japanese position on January 20 will be that the Japanese offers are an improvement over the Strauss round, and we should therefore accept them. It was agreed that there was a need to do much more than this and that it is better to have no agreement than a poor one.

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Chairman Regan discussed Treasury's progress in working with the Japanese Finance Ministry. He stated that the yen had strengthened since November 1983 in spite of the strong showing of the dollar. The reasons are unclear. Chairman Regan will stop off in Tokyo in March on his way back from China.

One U.S. goal is to gain liberal expansion of the Euro-yen and progress in this direction has been positive thus far. The Japanese believe that the relatively strong dollar is the result of U.S. policies -- that if we reduced deficits and lowered U.S. interest rates, the dollar would fall. Chairman Regan mentioned that the internationalization of the yen is the best prospect for mutual progress with the least political overtones. At the same time, the overall atmospherics coming out of Tokyo are discouraging.

International Debt

Chairman Regan began this discussion by mentioning that Philippine Central Banker Jamie Laya had resigned and been appointed Minister of Education. Treasury had asked Finance Minister Virata about Laya, and he mentioned it would be difficult for Laya to stay because of a general loss of confidence in his management.

Treasury commented that the Philippine situation was the most critical at the moment, with a serious need for an IMF program. The local exchange rate had increased from seven pesos to one dollar to fourteen pesos to one dollar, with a black market rate of twenty pesos to one dollar. They are trying to duplicate the Mexican policy of running all foreign exchange through the Central Bank, but it was somewhat ineffective because there was little hard currency available.

Venezuela is giving its creditors the most trouble among LDC debtors, and there has been no move toward an IMF agreement.

Nigeria looks no worse than before the coup and might be in a better position. The government did retain its top civil servant in the Finance Ministry.

Mexico continues to be a quasi success story. They are continuing to press for more favorable credit terms, but they want it done on a market basis.

Regarding Brazil, Treasury believes it will be difficult for Brasilia to comply with IMF conditions in 1984.

In Jamaica, the call for another election could complicate matters. It was hoped that the last one would clear the decks.

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The Israelis have not made a decision on whether to go to the IMF. State is discouraged about Israel, commenting that the Israeli government knows what the problem is but will not do anything about it. The government appears to be in a very tenuous position with divisive issues adding to instability. At the present time, they are incurring nearly 200 percent annual inflation. The economic crisis is the kind of situation that demoralizes a country and jeopardizes its security.